



Paul E. Patton, Governor

Janie Miller, Secretary
Public Protection and Regulation
Cabinet

Thomas M. Dorman
Executive Director
Public Service Commission

COMMONWEALTH OF KENTUCKY
PUBLIC SERVICE COMMISSION
211 SOWER BOULEVARD
POST OFFICE BOX 615
FRANKFORT, KENTUCKY 40602-0615
www.psc.state.ky.us
(502) 564-3940
Fax (502) 564-3460

Martin J. Huelsmann
Chairman

Gary W. Gillis
Vice Chairman

Robert E. Spurlin
Commissioner

PSC APPROVES ACQUISITION OF KENTUCKY-AMERICAN WATER COMPANY

FOR IMMEDIATE RELEASE
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CONTACT: Andrew Melnykovich
(502) 564-3940 ext. 208
(502) 330-5981 (cell)

FRANKFORT, KY – The Kentucky Public Service Commission today approved the acquisition of Kentucky-American Water Co. of Lexington by Thames Water Aqua Holdings GmbH.

The PSC placed 56 conditions on its approval of the acquisition, which is part of a larger transaction involving the purchase of American Water Works Company, which owns Kentucky-American, by RWE AG, the parent company of Thames Water.

Among the conditions imposed by the PSC are:

- Kentucky-American may not file for any rate increases before March 16, 2004.
- Customer service will be maintained at current or improved levels, with regular reports made to the PSC on service levels.
- No reductions in Kentucky-American's workforce will be made for at least two years, other than planned reductions pre-dating the merger, and all existing labor agreements will be continued.
- Kentucky-American's charitable giving and other community service activities will remain at levels comparable to those preceding the acquisition.
- At least 40 percent of Kentucky-American's board will consist of residents of its service area.
- Jacobson Park, which Kentucky-American leases to Lexington, may not be sold or transferred without PSC approval.
- Any savings resulting from the acquisition or future acquisitions in the United States will be reported to the PSC and an appropriate portion returned to Kentucky-American customers.
- If RWE established headquarters in the United States in the next 10 years, those offices shall be in Kentucky.
- The water company's new owners will meet with the PSC at least twice a year to report on the measures they are taking to operate in the public interest.

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PSC Chairman Martin Huelsmann and Vice Chairman Gary Gillis voted to approve the application filed by Kentucky-American and Thames. Commissioner Robert Spurlin filed a dissenting opinion.

Kentucky American serves about 100,000 residential, commercial and industrial customers in Fayette and six other counties. The company also sells water to four municipal water systems and two small water districts. It was incorporated in 1882 as the Lexington Water Company.

American Water Works owns and operates water and sewer systems serving about 10 million people in 23 states. It also manages water or sewer systems serving five million people in 18 states and three Canadian provinces. Thames, one of 12 operating subsidiaries of RWE, is the third largest water and sewer utility in the world, with 43 million customers in 44 countries.

Kentucky law requires that an applicant to acquire a utility demonstrate the financial, technical and managerial ability to provide reasonable service. In addition, the PSC has to determine that the transaction is in the public interest.

In its order, the PSC said that the acquisition "will not result in any increase in utility rates or reduction in the quality of water service. "

"By placing KAWC into a larger company system, the proposed merger will increase KAWC's access to capital, cutting edge technologies, and enhanced R&D,' the PSC majority said. "It will allow KAWC to draw upon Thames' experience in the area of security practices and to better protect its facilities at lower cost. It will permit greater employee training opportunities and should result in a better-trained work force."

Commissioner Spurlin cited a number of factors leading to his dissent.

"In my opinion, Kentucky-American has not demonstrated that this proposed acquisition would result in any benefits to Kentucky customers that they would not otherwise receive," he wrote. "It is abundantly and painfully clear to me that this merger is not consistent with the public interest."

The applicants have seven days in which to accept the conditions placed on the acquisition by the PSC. Parties to the case have 20 days in which to seek a rehearing in the case.

The order and related case documents are posted on the PSC Web site, www.psc.state.ky.us. It may be found under Case Number 2002-00018.

